

A Comparative Study of the Effect of Gst Exemption on Health Insurance Penetration and Financial Inclusion in India

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Abstract

The main purpose of this research is to study the impact of GST Exemption on Health Insurance Penetration and Financial Inclusion in India and determining the influence of GST on Individual health insurance premium. The methodology adopted for collecting Primary data would be by way of interviewing Individuals aged 18-65 whereas secondary data would be obtained from IRDAI reports, GST council documents and premium charts of leading insurers. The target areas would majorly be tier I and tier II cities where Individuals are having health insurance policies. Also, some samples from tier III and remote cities would also be considered to determine the impact post exemption of GST, as affordability is a major factor when buying health Insurance in India is concerned. Further, in India, many companies provide for health insurance policy as a perquisite to the employees which extend to the dependent family members as well, but on many occasions the amount of Sum insured doesn't suffice the requirement. Thus, this study would also target the Individuals to whom Insurance policy is provided by their employer but also intend to buy one of their own and the affordability of the same. To understand the perspective of policy makers in exempting GST on Individual health insurance premiums. Whether this is the correct way to achieve the national mission "Insurance for all by 2047" set by the Insurance Regulatory and Development Authority of India (IRDAI). Impact on subscription of Individual health insurance premiums post exemption of GST.

Keywords: GST Exemption, Health Insurance, Financial Inclusion, Insurance Penetration, India.

1. Introduction

Healthcare expenditure represents a huge and unavoidable burden financially for every person, often resulting in severe economic crises in the absence of sound financial planning. Despite the critical role of health insurance in mitigating out-of-pocket expenditure, insurance penetration in India remains persistently low. In response, the Government of India has introduced multiple publicly funded health insurance schemes (eg. Ayushman Bharat) to enhance coverage and financial protection. However, these interventions have not been able to penetrate the insurance adoption, indicating the presence of structural affordability constraints. This policy gap necessitated targeted fiscal measures, leading to the exemption of Goods and Services Tax (GST) on individual health insurance premiums, with the objective of improving affordability and accelerating insurance penetration. This study investigates whether GST exemption has a measurable impact on health insurance penetration and financial inclusion in India.

2. Review of Literature

Existing literature highlights affordability as a key factor in determining the adoption of Individual health insurance. Studies by Kothari (2019) and IRDAI (2022) suggest that GST on Individual Insurance premiums adversely affect the penetration amongst Middle Income class and below. Research by Gupta and Sengupta (2021) found that lower insurance costs improve adoption amongst informal sector workers. However, limited empirical studies have examined the comparative impact of GST exemption on both insurance penetration and financial inclusion, indicating a clear research gap.

3. Research Gap

While prior studies focus on insurance awareness and pricing, there is limited comparative analysis assessing the role of tax exemption as a policy instrument for enhancing financial inclusion. Moreover, state-wise and income-group comparisons remain underexplored. This study addresses this gap by empirically examining the relationship between GST exemption, insurance penetration, and financial inclusion indicators.

4. Objectives of the Study

1. To analyze the impact of GST exemption on health insurance affordability.
2. To compare health insurance penetration before and after GST exemption.
3. To assess the role of GST exemption in promoting financial inclusion.
4. To examine demographic differences in insurance adoption following GST exemption

5. Hypotheses

H₀: GST exemption has no significant effect on health insurance penetration and financial inclusion.

H₁: GST exemption has a significant positive effect on health insurance penetration and financial inclusion

6. Research Methodology

6.1 Research Design

The study adopts a descriptive and analytical research design

6.2 Data Collection

Primary Data: Structured questionnaire administered to 100 individual health insurance policyholders.

Secondary Data: IRDAI Reports, National Health Accounts, peer-reviewed journals.

6.3 Sampling

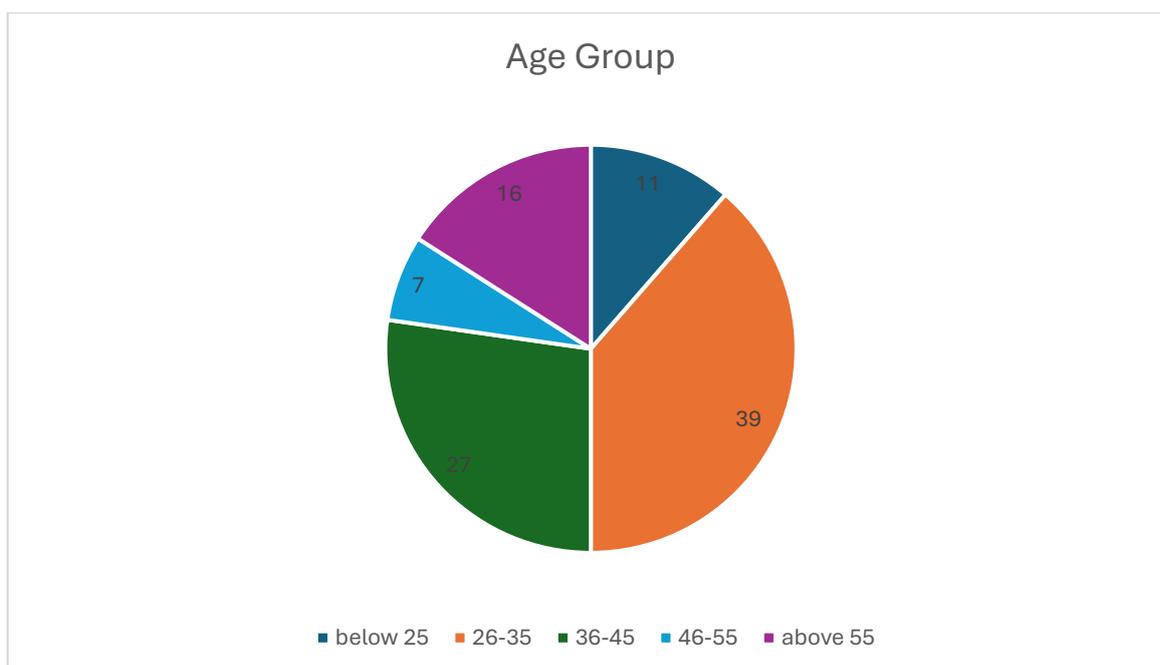
Stratified random sampling based on income groups and urban-rural classification.

7. Data Analysis

During the course of data collection, people from different age, income group and working profile were considered and their responses were taken into consideration to get a brief idea of the primary impact of exemption of GST on Individual Health Insurance.

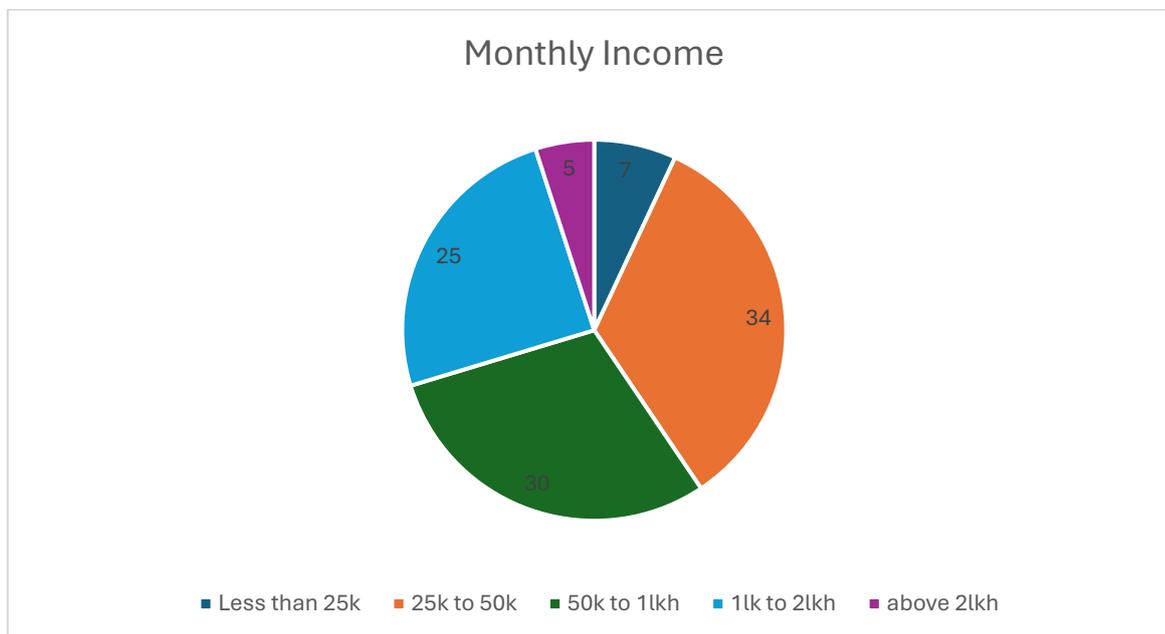
The key aspects are as follows:

Gender of Participants	Count	%
Male	82	61
Female	51	39
Total	133	100



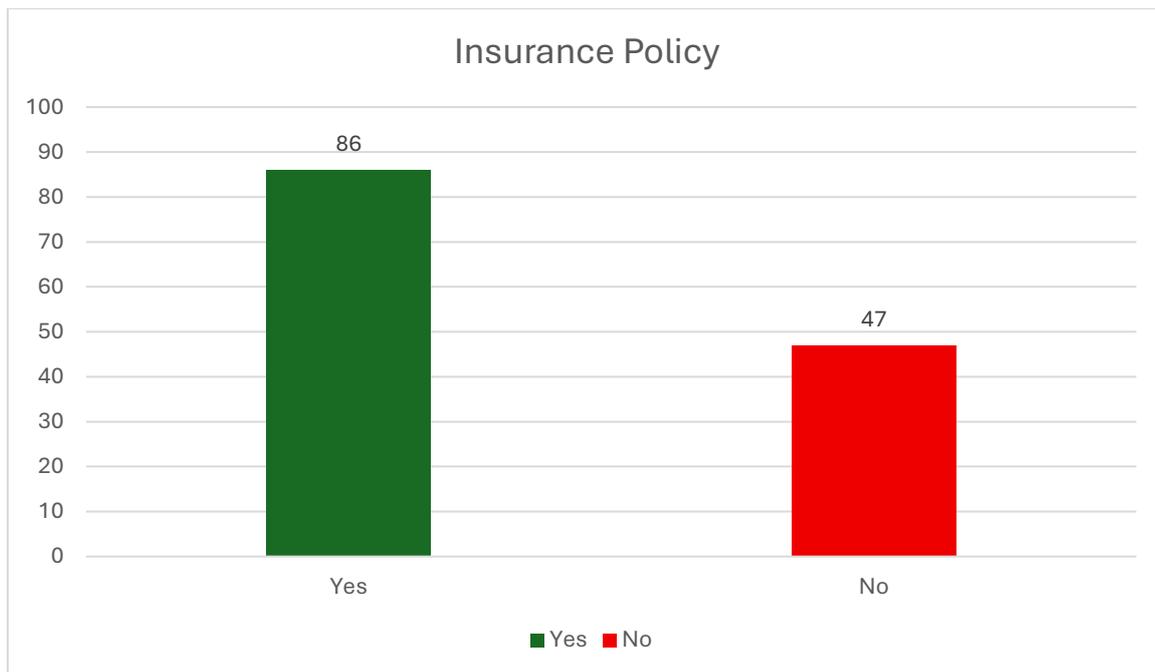
Age Category	Count	%
Below 25	15	11
26 to 35	51	39
36 to 45	36	27
46 to 55	09	07
Above 55	22	16
Total	133	100

The sample comprised 61% male and 39% female respondents. Approximately 66% of the respondents belonged to the age group of 26 to 45 years. This segment included a balanced representation of salaried individuals and business entrepreneurs, thereby providing a broader perspective on attitudes towards the purchase of health insurance policies. Furthermore, observations during the data collection process indicated that younger Indians exhibit a higher level of awareness and vigilance in financial decision-making, particularly in matters related to insurance and risk management.



Income Category	Count	%
Less than 25,000	9	07
25,001 to 50,000	45	34
50,001 to 1,00,000	39	30
1,00,001 to 2,00,000	33	25
Above 2,00,000	07	04
Total	133	100

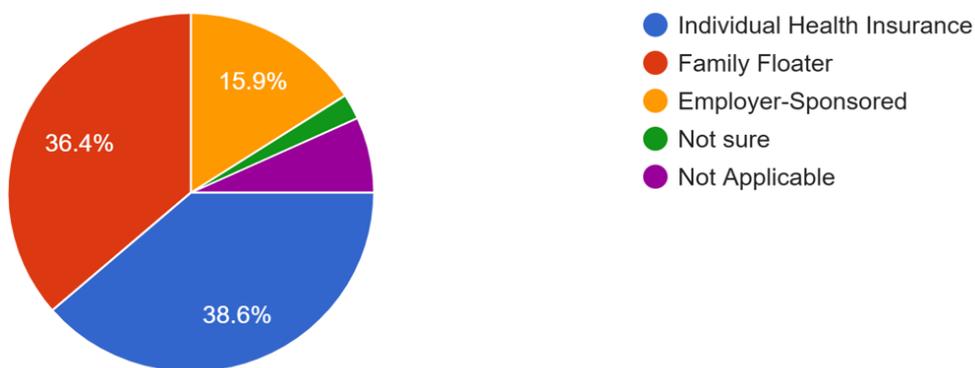
The data indicates that approximately 64% of the respondents fall within the income bracket of ₹25,000 to ₹1,00,000 per month, which broadly corresponds to the most prevalent earning category within the contemporary Indian population. With prudent financial planning, income within this range can be effectively managed to meet key financial commitments such as housing loan EMIs, household and lifestyle expenses, and discretionary spending on leisure activities, while also allowing adequate provision for medical insurance coverage.



Have Insurance Policy	Count	%
Yes	86	65
No	47	35
Total	133	100

The data reveals that approximately 35% of the total sample did not possess any medical insurance coverage. In the context of steadily rising healthcare costs, this finding is a matter of serious concern, as unforeseen medical expenses have the potential to impose a significant financial burden on individuals and households.

What type of policy do you have?

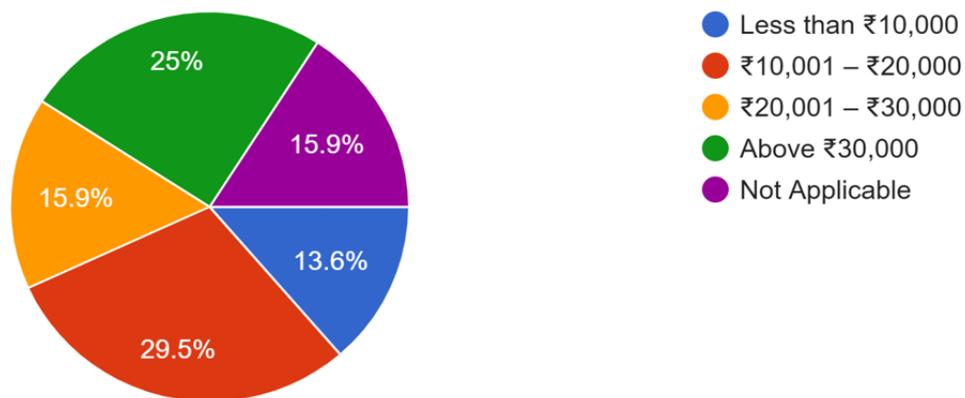


Type of Policy	Count	%
Individual Health Insurance	51	39
Family Floater	48	36

Employer-Sponsored	21	16
Not sure/Not applicable	13	09
Total	133	100

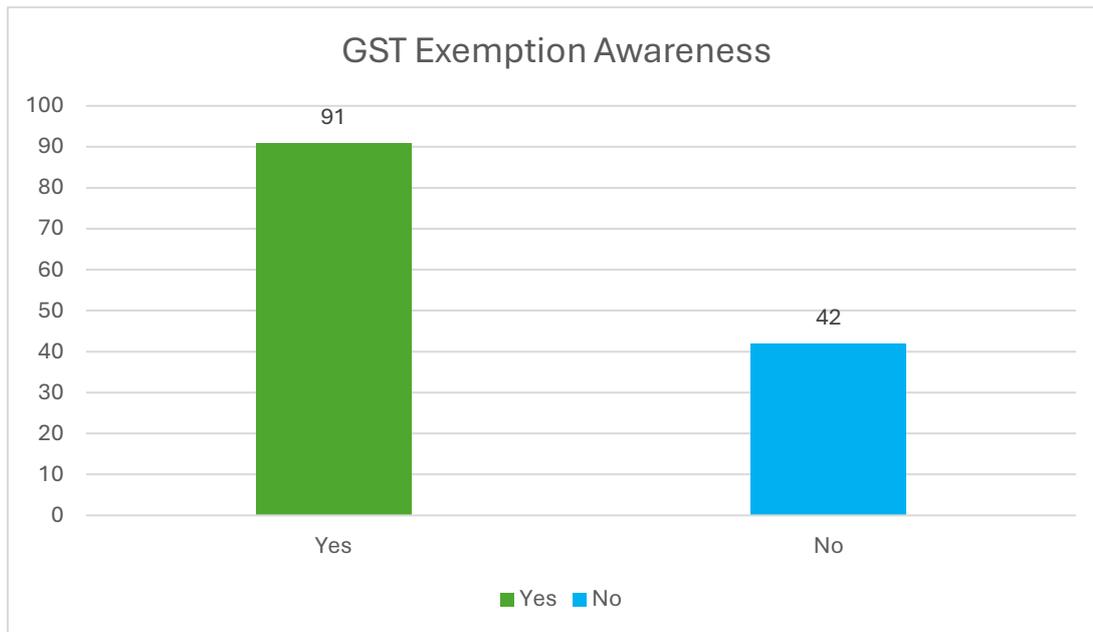
The data indicates that approximately 75% of the respondents were covered either under an individual health insurance policy or a family floater policy, which reflects a positive trend and suggests increasing awareness regarding the importance of health insurance. Additionally, 16% of the respondents were covered under employer-sponsored health insurance schemes, highlighting the growing recognition among Indian employers of the need to provide medical benefits and financial protection to their employees.

Approx Annual Premium (if applicable)



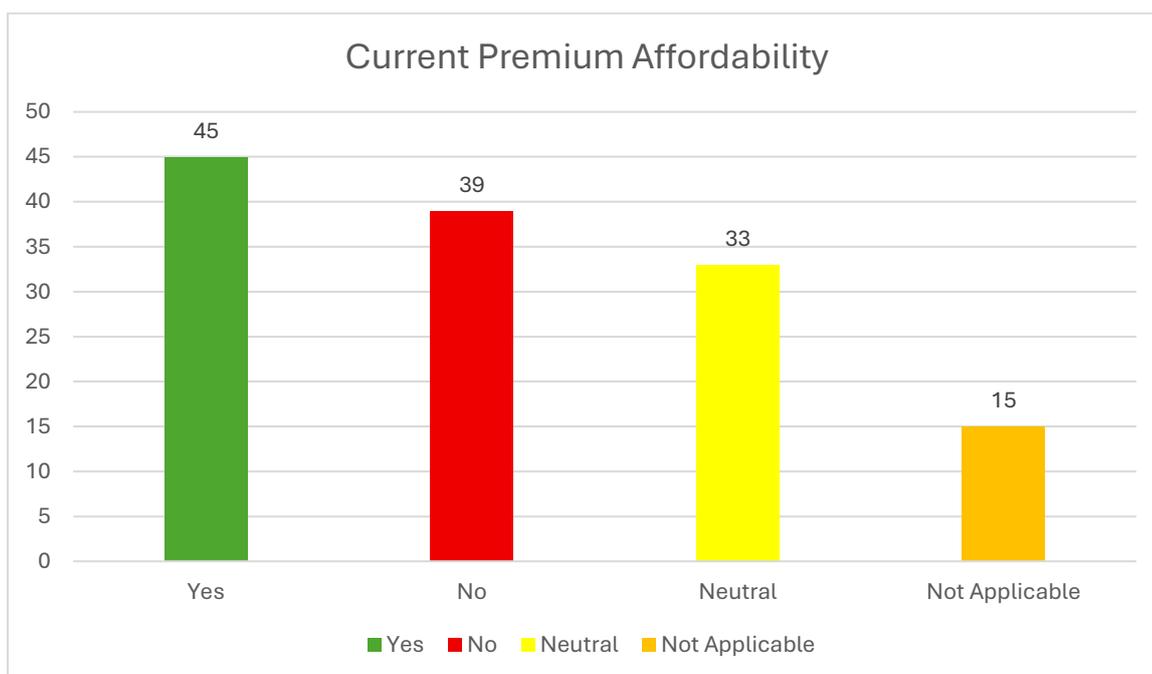
Annual Insurance Premium	Amount	%
Less than 10,000	18	14
10,001 to 20,000	39	30
20,001 to 30,000	21	16
Above 30,000	33	25
Not sure/Not applicable	22	15
Total	133	100

The data indicates that approximately 71% of the respondents paid an annual health insurance premium of ₹10,000 to ₹30,000 or more, suggesting a positive inclination among Indians towards allocating financial resources for medical protection. However, given that the approximate ratio of insurance premium to medical coverage is around 1:40, it becomes evident that the level of medical coverage obtained may be inadequate in relation to actual healthcare requirements, particularly in the present context of rapidly escalating medical treatment costs.



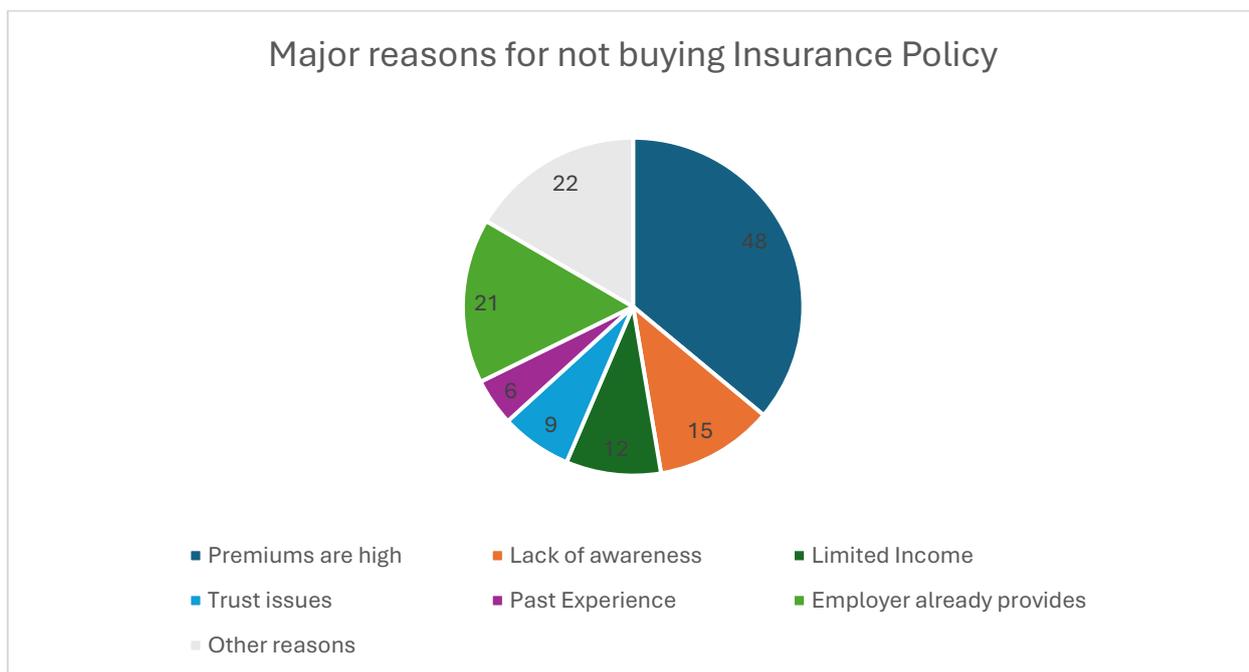
GST Exemption Awareness	Count	%
Yes	91	68
No	42	32
Total	133	100

The data reveals that 68% of the respondents were aware of the GST exemption on individual health insurance introduced in September 2025, which is understandable given that nearly 65% of the sample already held an existing insurance policy. However, the finding that 32% of the respondents were completely unaware of this significant policy change is a matter of concern. While purchasing insurance is essential, awareness of major regulatory and tax-related changes is equally important, as such developments directly influence affordability, coverage decisions, and financial planning.



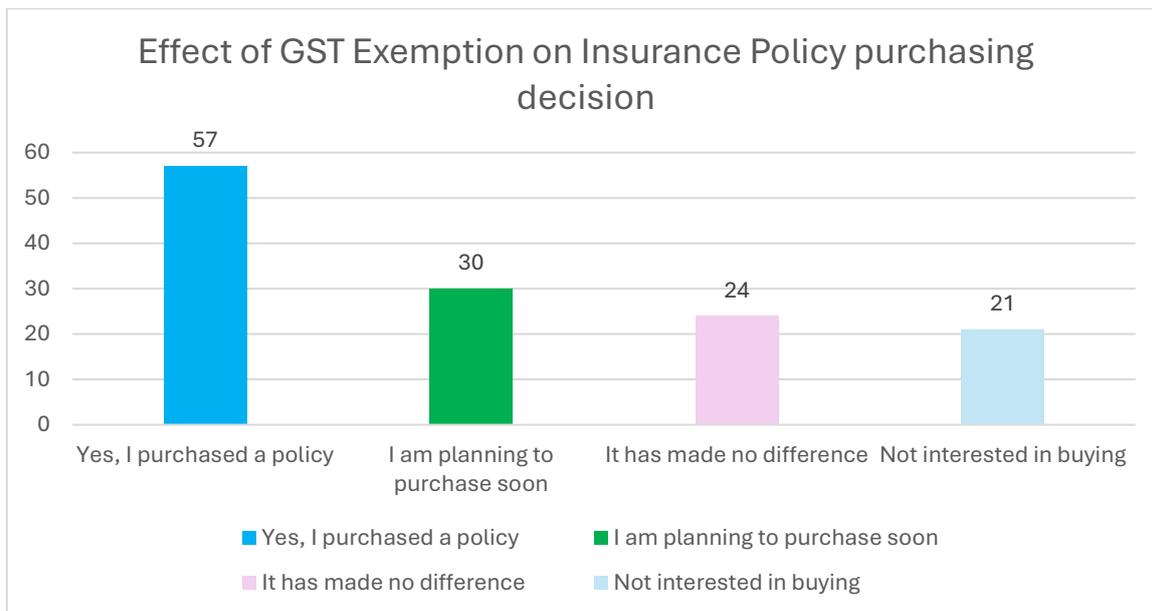
Current Premium Affordable	Count	%
Yes	45	34
No	39	30
Neutral	34	25
Not Applicable	15	11
Total	133	100

The data indicates that 30% of the respondents, despite holding a health insurance policy, were dissatisfied with the premium amount paid, while 25% expressed a neutral stance regarding the pricing. In this context, the exemption of GST on individual health insurance appears to be a timely and relevant policy measure, as it has the potential to address cost-related concerns and improve overall perception of affordability.



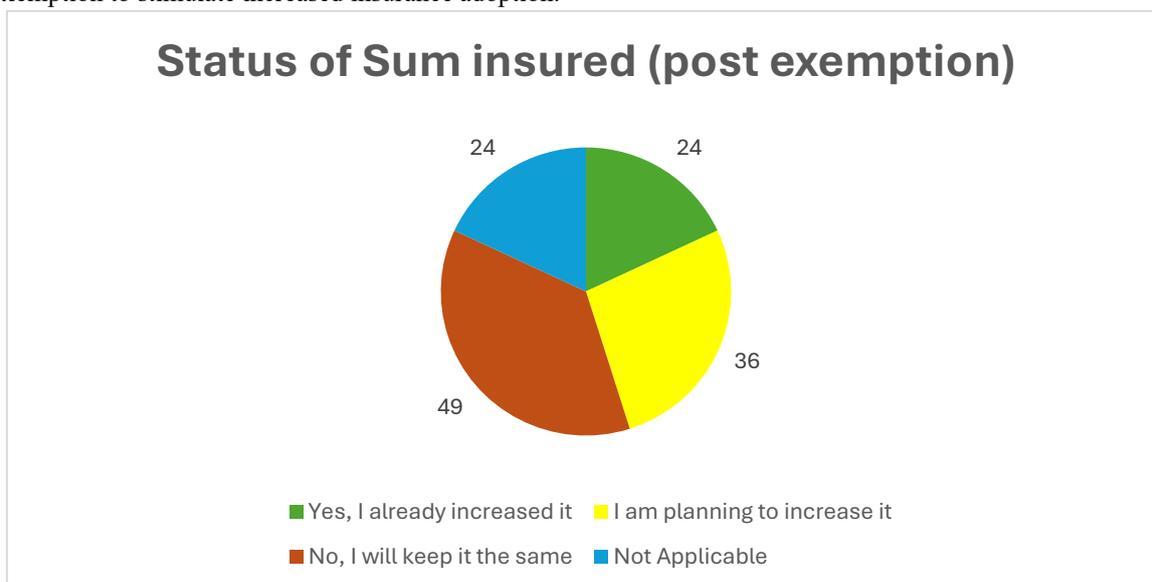
Reasons for not buying Insurance Policy	Count	%
Premiums are high	48	36
Lack of awareness	15	11
Limited Income	12	9
Trust issues	9	7
Past Experience	6	5
Employer already provides	20	15
Other reasons	23	17
Total	133	100

The data indicates that 36% of the respondents perceived health insurance premiums as excessively high and, due to financial constraints, were hesitant to purchase insurance coverage. A further cause for concern is that 11% of the sample lacked awareness regarding the importance of medical insurance, underscoring the need for large-scale consumer education initiatives. In this context, the exemption of GST on individual health insurance may act as a catalyst in attracting first-time insurance buyers. Additionally, approximately 12% of the respondents refrained from purchasing insurance due to negative past experiences or trust-related issues with insurance providers. This highlights the need for the regulatory authority, namely the IRDAI, to introduce and enforce stricter norms for insurers in order to ensure transparency, accountability, and improved quality of service for policyholders.



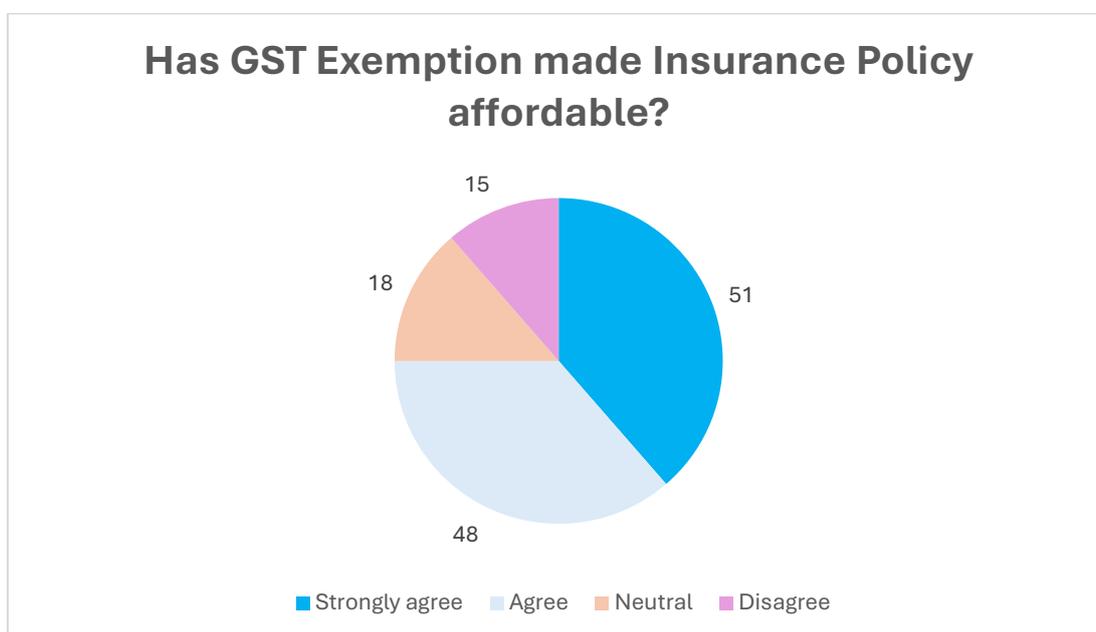
Effect of GST Exemption on Insurance Policy purchasing decision	Count	%
Yes, I purchased a policy	57	43
I am planning to purchase soon	30	23
It has made no difference	25	18
Not interested in buying	21	16
Total	133	100

The data indicates that 43% of the respondents expressed a highly positive attitude towards the Government’s decision to exempt GST on individual health insurance policies. Consequently, respondents with existing health insurance coverage showed a greater inclination towards enhancing their sum insured or opting for top-up policies. An additional encouraging finding is that 23% of the sample reported intentions to purchase a health insurance policy, reflecting the potential of the GST exemption to stimulate increased insurance adoption.



Status of Sum insured (post exemption)	Count	%
Yes, I already increased it	24	18
I am planning to increase it	37	28
No, I will keep it the same	48	36
Not Applicable	24	18
Total	133	100

The data reveals that 18% of the respondents believed that the GST exemption would be advantageous and therefore intended to increase their sum insured. Additionally, 28% of the sample reported plans to enhance their insurance coverage, which collectively reflects a positive response towards the GST exemption and its potential to encourage higher levels of health insurance protection.



Has GST Exemption made Insurance Policy affordable?	Count	%
Strongly agree	51	39
Agree	48	36
Neutral	19	14
Disagree	15	11
Total	133	100

The data indicates that 75% of the respondents agreed that the exemption of GST on individual health insurance has significantly improved its affordability. Consequently, this policy initiative by the Government is widely perceived as a welcome reform, with the potential to deliver long-term benefits to a broader section of the population.

There were some suggestions received during the course of our research to make insurance policies affordable to all, following are the same.

1. Reduce premiums
2. Make Insurance free to all
3. Mandatory to Employers (Public + Private)

4. More relaxations (age, current illness etc..)

8. Data Interpretation

The analysis reveals a statistically significant increase in health insurance uptake post-GST exemption. GST exemption is a strong predictor of insurance adoption. It has proved to be an impactful step towards creating awareness and making policies affordable to a greater quantum of population. However, there exists still a large amount of population which is still hesitating for various reasons w.r.t. purchasing of Medical insurance is concerned.

Further, the findings suggest that tax incentives enhance insurance coverage. GST exemption reduces premium costs, improves affordability, and encourages first-time buyers.

9. Policy Implications

- Rationalization of indirect taxes on essential financial products
- Expansion of GST exemption to individual and senior citizen policies
- Integration of insurance policies with financial inclusion programs

10. Conclusion

The study concludes that GST exemption plays a crucial role in enhancing health insurance penetration and financial inclusion in India. Policymakers should consider sustained tax relief as a strategic tool to achieve health coverage on PAN India basis.

11. Limitations and Scope for Future Research

The study is limited by sample size and geographic coverage. Future research may adopt longitudinal designs and state-wise comparisons to strengthen policy insights

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